VZCZCXRO0808
RR RUEHMA RUEHPA
DE RUEHMV #0052/01 0201613
ZNR UUUUU ZZH
R 201613Z JAN 09
FM AMEMBASSY MONROVIA
TO RUEHC/SECSTATE WASHDC 0696
INFO RUEATRA/DEPT OF TREASURY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 02 MONROVIA 000052

SENSITIVE
SIPDIS

E.O.12958: N/A
TAGS: EAID EFIN ETRD EINV ECON LI
SUBJECT: LIBERIA: Donor Support Remains Essential As Economy
Recovers

REF A) STATE 134905; B) STATE 125609; C) MONROVIA 999

¶1. (SBU) SUMMARY: The IMF remains cautiously optimistic about Liberia's economic outlook and we anticipate current USG assistance programs will be adequate to address the challenges of the financial crisis. Liberia's rubber exports are down (for domestic reasons), resumption of timber exports is behind schedule, and there has been a drop in private transfers (remittances), but Central Bank reserves are increasing faster than expected. Pressure on consumers caused by the surge in commodity prices has been receding sharply. Continued investment and donor support will be critical, but so far neither shows evidence of diminishing. According to the IMF, the GOL needs to focus on maintaining competiveness: improving infrastructure and avoiding excessive wage increases. We will need to be vigilant that increasing needs in other countries do not divert aid, especially food aid, from Liberia. The information in Ref C remains current. END SUMMARY

The following points are keyed to Ref A queries:

Real Economy

¶2. (SBU) The GOL has been proactive in responding to the surge in commodity prices and the global financial crisis. Ref C described the importance of remittances, investment and donor funding on Liberia's economy. Although data collection is weak, thus far, the global financial crisis has not had a noticeable impact on the real economy. Of the three funding sources, the investment climate is the only factor under GOL control. The IMF has stressed the importance of boosting competitiveness in order to attract what foreign investment remains.

Financial Sector

¶3. (SBU) Liberia's isolation from the financial system has buffered it from the worst effects of the crisis. Domestic banks continue to expand, both services and physical presence, and loan quality is improving. The Central Bank licensed one new bank in 2008 (United Bank of Africa, Nigerian) and issued provisional licenses to Access Bank and Guarantee Bank (also Nigerian). The Central Bank continues to tighten supervision: bank capital adequacy ratios have been increased (from 8% to 10%; all but one bank exceed the minimum) and capitalization requirements were raised in 2008 to $6 million (up from $2 million at the start of the Sirleaf administration). Credit had been extremely restricted in Liberia (due to the war, not the financial crisis) and standard credit instruments such as mortgages and credit cards are not available.

¶4. (SBU) Liberia, with the U.S. dollar as legal tender and no debt repayment obligations, is in a unique situation. As fewer U.S. dollars enter the country, economic activity contracts, but there will not be an exchange rate crisis. According to the IMF, CBL efforts to increase reserves have not only been unaffected by the global financial squeeze, they are running ahead of projections.

¶5. (SBU) Remittances play an important role in Liberia's economy and there were signs of a drop in remittance payments starting in November 2008. The Liberia Bankers' Association reports that the impact was not significant in 2008, but they will continue to monitor trends into 2009.

Impact on Government Revenue and Expenditure

¶6. (SBU) According to the IMF resident representative, Ref C's outlook remains current: Liberia's economy will face challenges from the global financial crisis, but overall could emerge well-positioned to prosper. Liberia's economic growth is forecast to continue but the GOL will remain dependent on foreign assistance to meet basic requirements. Although several expected revenue sources, primarily timber exports and completed concession agreements, did not materialize in CY2008 for reasons unrelated to the financial crisis, the Minister of Finance has told us other revenue sources are coming in above expectation so the final balance may be near projection.

Trade and Investment

¶7. (SBU) For the first time since 1987, the Central Bank of Liberia (CBL) has published Balance of Payments statistics, for the period from 2004-2007. Data collection is still spotty, but should improve with time. According to the IMF, Liberia's balance of payments showed steep deterioration in the trade account in August-September 2008 with the surge in commodity prices but that has receded sharply since October.

¶8. (SBU) Although decreasing prices on imported commodities (food and fuel) reduced consumer costs in Liberia, they also dampen investment in Liberian resources. The Ministry of Agriculture anticipates that lower growth in OECD countries will reduce demand crops such as rubber and cocoa, which were expected to lead export growth. However, shortfalls in anticipated exports have more to do with domestic constraints than with the global economy.

¶9. (SBU) Ref C reported losses the GOL has incurred by failing to conclude agreements with potential investors while commodity prices were high. One investor in palm oil decided to reduce the project by 75%; another is bargaining for more favorable terms. Exports of timber and minerals have not resumed as quickly as anticipated, although major logging and minerals concession awards are likely in
¶2009. Rubber exports were expected to decline in coming years as old trees are replaced, and rubber smuggling (against which the GOL has taken steps) has further cut into rubber export revenue. According to Central Bank figures, rubber accounted for 93% of Liberia's export revenue in 2007.

¶10. (SBU) However, Liberia recently announced a $2.6 billion mining investment by a Chinese firm, and there are several other major deals in the pipeline. If reforms to the business climate continue and the tendency towards protectionism can be restrained, investors should continue to see long-term opportunity in Liberia.

Other Donor and Multilateral Institution Plans
--- --

¶11. (SBU) Donor support is key. In addition to the impact on balance of payments, donor-funded infrastructure improvements and support for more effective judicial and regulatory systems will be essential in boosting competitiveness. Lower prices for Liberia's commodities reduce incentives to cut corners in concession negotiations or to smuggle, and may allow Liberia to enter the global economy with a stronger foundation as prices start to rise.

¶12. (SBU) Food aid is critical. In 2007, Liberia imported approximately 60% of its rice. WFP tells us diminished donor support and increased demand will squeeze its programs in education, health and nutrition and increase the levels of food insecurity and

malnutrition.
¶13. (SBU) The impact of the financial crisis in the health and education sectors is not yet clear but donor contributions will continue to exceed GOL funding. (Note: In Liberia FY 2008-09, which started July 1, the GOL budgeted $28 million to the Ministry of Education (MOE) and $15 million to the Ministry of Health (MOH). In comparison, the USG FY 2008-09 funds were $20 million for education and $31 million for health. Donor funding is not included in the GOL budget. End note.) The MOE is focusing on the UNICEF/Netherland/Soros Foundation-supported Pooled Fund, created to fill gaps as opposed to propping up the system, but the other bilateral or multilateral partners may cut their contributions. Education donor partners have not yet declared funding cuts but the MOE lacks either the financial resources or the human capacity to operate without foreign assistance.

¶14. (SBU) The Global Fund for AIDS, TB and Malaria (GFATM) has called for a 10 to 15% "belt tightening" exercise for current recipients of GFATM grants. With $79 million approved for the next three years GOL revenues for AIDS, TB and malaria would be $8-12 million lower (over three years) than anticipated prior to the GFATM, but it is unlikely reductions in the GFATM allocations to health programs will result in failure to achieve most of the stated objectives.

Comment

¶15. (SBU) Donor commitment to Liberia remains strong but we will need to continue to monitor the impact of tighter budgets in the out years. Although we anticipate drops in remittances, investment, and donor funding, there are indications Liberia may be less hard hit than other developing countries. There is a risk that still-pervasive corruption could sour the optimism of both donors and investors, but we expect President Sirleaf's commitment to reforms to continue to pay dividends in attracting public and private funds.

THOMAS-GREENFIELD